

MARICOPA COUNTY
EMPLOYEE BENEFITS TRUST FUNDS
Financial Commentary
September 2014

June 2014 Full-Year Results

For plan year 2014, three major economic events were recorded since the Meeting held on 8/18/2014:

1) A refund of \$5,919,967 for capitation paid to Cigna for plan years FY 2011 to FY 2013 was booked as an opening fund balance adjustment in the amount of \$4,947,028, and for Plan Year 2014 as a reduction in claims expense in the amount of \$944,160 and interest revenue of \$28,779. This refund is to correct a duplication of capitation expense charged by Cigna.

2) The Transitional Reinsurance Fee required by the Affordable Care Act was accrued in the amount of \$850,637 for FY 2014. The fee is booked for the six months ended 6/30/2014 at a rate of \$5.25 per Member per Month.

3) The IBNR/RBUC estimate for the Reserve for Losses and Loss Expenses, as prepared by Mercer, was \$491,769 higher than what had been previously accrued and this additional liability has been included in the financials.

The impact of these transactions has been to increase ending fund balance by \$4,555,180.

	<i>As of 8/18/2014</i>	<i>As of 10/20/2014</i>	
<u>Income Statement Adjustments</u>	<u>Full Year 2014</u>	<u>Full Year 2014</u>	<u>Change</u>
IBNR Adjustment to Claims Expense	0	(491,769)	(491,769)
Refund of Capitation - Current Year	0	944,160	944,160
Interest on Capitation Refund	0	28,779	28,779
Transitional Reinsurance Fees	0	(850,637)	(850,637)
Misc Accounts Payable	0	(28,308)	(28,308)
Fixed Assets Capitalized	0	5,927	5,927
Opening Fund Balance Adjustment	0	4,947,028	4,947,028
Total Income Statement Adjustments			<u>4,555,180</u>
<u>Balance Sheet Adjustments</u>			
Accounts Receivable	811,359	6,702,547	5,891,188
Interest Receivable	42,114	70,893	28,779
Capital Assets	0	5,927	5,927
Accounts Payable	(1,118,851)	(1,147,159)	(28,308)
Accrued Liabilities	(3,639,510)	(4,490,147)	(850,637)
Reserve for Losses and Loss Expenses	(11,195,527)	(11,687,296)	(491,769)
Total Balance Sheet Adjustments			<u>4,555,180</u>
Fund Balance	33,587,264	38,142,444	4,555,180

September 2014 Year-To-Date Results

As of September 30, 2014, cash and cash equivalents were \$45,706,567 as compared to the June 30, 2014 balance of \$46,098,415; a decline of \$391,848. Cash not controlled directly by the County is shown in the prepaid insurance balance sheet account. This was \$3,269,972 as of September 30th versus a balance of \$2,748,710 on June 30, 2014; and increase of \$521,262. Prepaid insurance consists of the money used to fund the Trust transfers to outside bank accounts to pay for Cigna and United Health Group medical claims as well as the employer and employee contributions to employee Health Savings Accounts via sweeps. The combined reduction in cash-like balances year-to-date was \$129,414.

Review of Cash

	<u>9/30/2014</u>	<u>6/30/2014</u>	Increase/ (Decrease)
Cash and cash equivalents	\$45,706,567	\$46,098,415	(\$391,848)
Prepaid insurance	\$3,269,972	2,748,710	\$521,262
Total Cash	<u>\$48,976,539</u>	<u>\$48,847,125</u>	<u>\$129,414</u>

Net Loss year-to-date September 2014 was (\$1,004,025) which occurred primarily in the Pharmacy Plan (\$801,803) due to the unbudgeted Hepatitis C drug Sovaldi claims; in the PPO and HDHP Medical Plans (\$459,909) and (\$388,361); with offsetting positive margins occurring in the HMO Medical Plan \$519,635 and the Benefits Administration and Wellness funds. Net Margin was not in line with the increase in cash-like balances of \$129,414. This \$1,133,439 difference (or increase in cash versus negative net margin) is accounted for as follows: the liability, "Accrued Liabilities" consisting mainly of outstanding checks in the Cigna Prepaid Account, decreased by \$366,908; Accounts Payable decreased by \$1,040,661; and the IBNR Liability decreased by \$1,154,000. There was an increase in the cost allocation rate differential of \$2,478,939. This account is used to account for the difference between what departments are charged for benefits premiums and what the Benefit Trust records as revenues from the departments. Finally, Accounts Receivable decreased by \$6,193,029 as the \$5,919,967 capitation refund was received from Cigna.

Cash Flow Analysis

	<u>YTD Sept2014</u>
Increase in Cash	129,414
Decrease in IBNR Liability	1,154,000
Decrease in Accrued Liabilities	366,908
Decrease in Accounts Payable	1,040,661
Decrease in Accounts Receivable	-6,193,029
Increase in Cost Allocation Rate Differential	2,478,939
Other	19,082
Difference - Cash Change vs Net Margin	<u>-1,133,439</u>
Net Margin	<u>-1,004,025</u>

Review of the Fund Balance Roll-Forward

The three Medical Plans are showing a net loss of (\$328,635) year to date September 2014. The Cigna HMO had a positive net margin of \$519,635, and the UHC PPO and the UHC High Deductible Health Plan (HDHP) lost (\$459,909), and (\$388,361), respectively. The UHC High Deductible Health Plan's loss included the impact of the \$1,800,000 benefit trust contribution to the employee Health Savings Accounts. With the switch of two of the Medical Plans from Cigna to UHC which was effective July 1st, there is very little trend to estimate actual claims for July to September.

The Coinsurance Pharmacy Plan had a net loss of \$801,803 year-to-date September 2014 mainly as a result of the Hepatitis C drug Sovaldi and several other specialty pharmaceuticals which came to market after the premiums rates had been finalized for Plan Year 2015.

The Short-Term Disability plans lost \$65,028 year to date September 2014. With the 17% increase in premiums rates for Fiscal Year 2015, it appears that the rates set for the Short Term Disability plans may be close to what is needed to fully cover claims after large losses in the previous year.

MARICOPA COUNTY
EMPLOYEE BENEFITS TRUST FUND
Statements of Revenues, Expenses, and
Changes in Net Assets —Internal Service Funds
YTD as of September 30, 2014

	YTD 9/30/2014	Full Year 6/30/2014	Full Year 6/30/2013	Full Year 6/30/2012
Operating revenues:				
Operating income	\$ 34,677,902	\$ 127,869,594	\$ 127,318,181	\$ 122,941,566
Other income	4,675	3,479,437		
Investment income	54,017	258,208	284,792	443,209
Total operating revenues	\$ 34,736,594	\$ 131,607,239	\$ 127,602,973	\$ 123,384,775
Operating expenses:				
Losses and loss expenses	33,394,371	134,052,986	111,466,606	114,179,304
All other expenses	2,346,248	6,362,562	7,706,150	7,060,881
Total operating expenses	\$ 35,740,619	\$ 140,415,548	\$ 119,172,756	\$ 121,240,185
Nonoperating revenues:				
Capital contributions		0	0	0
Return of contributions		(3,415,262)	(6,178,953)	
Transfers to Other Funds		0	0	0
Short-Term Disability Rebate				
Loss on disposal of capital assets		0	0	0
Total nonoperating revenues	\$ -	\$ (3,415,262)	\$ (6,178,953)	\$ -
Change in net assets	(1,004,025)	(12,223,571)	2,251,264	2,144,590
Total net assets - Beginning	38,142,444	45,418,987	43,167,723	41,023,133
Open Fund Balance Adjustment		4,947,028		
Total net assets - Ending	\$ 37,138,419	\$ 38,142,444	\$ 45,418,987	\$ 43,167,723

Maricopa County
Employee Benefits Trust Funds
Statements of Net Assets - Internal Service Funds
September 30, 2014, June 30, 2014, June 30, 2013, and June 30, 2012

	9/30/2014	6/30/2014	6/30/2013	6/30/2012
Assets				
Cash and cash equivalents	\$ 45,706,567	\$ 46,098,415	\$ 60,786,170	\$ 60,636,639
Interest receivable	70,893	70,893	81,633	42,598
Accounts receivable	509,518	6,702,547	570,404	924,206
Due from Other Departments	1,891,018	0		
Prepaid insurance	3,269,972	2,748,710	2,606,982	1,411,102
Capital assets, net	5,927	5,927	0	0
	\$ 51,453,894	\$ 55,626,492	\$ 64,045,189	\$ 63,014,545
Liabilities				
Accounts payable	106,498	1,147,159	586,562	88,404
Accrued Liabilities	3,535,318	4,490,147	9,617,663	5,554,366
Employee compensation payable	140,364	159,446	135,030	3,268,085
Reserve for losses and loss expenses	10,533,296	11,687,296	8,286,947	10,935,968
Total liabilities	\$ 14,315,476	\$ 17,484,048	\$ 18,626,202	\$ 19,846,823
Net Assets				
Invested in capital assets	0	0	0	0
Unrestricted (deficit)	37,138,418	38,142,444	45,418,987	43,167,723
Total net assets (deficit)	\$ 37,138,418	\$ 38,142,444	\$ 45,418,987	\$ 43,167,723

MARICOPA COUNTY
EMPLOYEE BENEFITS TRUST FUNDS
Fund Balance Roll-Forward
Three Months Ended September 30, 2014

Self Insured Funds

<u>Fund</u>	<u>Expenditures</u>	<u>Revenues</u>	<u>Net</u>	<u>Fund Balance</u> <u>7/1/2014</u>	<u>Fund Balance</u> <u>9/30/2014</u>
601-MEDICAL HMO	\$ 11,795,613	\$ 12,315,248	519,635	\$ 5,785,722	6,305,357
604-MEDICAL PPO	9,563,226	9,103,317	(459,909)	(5,458,154)	(5,918,063)
606-MEDICAL HDHP W HSA	6,272,568	5,884,207	(388,361)	(3,903,464)	(4,291,825)
Total Medical & BH	\$ 27,631,407	\$ 27,302,772	\$ (328,635)	\$ (3,575,896)	\$ (3,904,531)
608-COINSURANCE PHARMACY	4,332,117	3,530,314	(801,803)	18,889,457	18,087,654
619-ONSITE PHARMACY CLINIC	483,458	366,528	(116,930)	(759,524)	(876,454)
620-BENEFITS ELIMINATIONS	(263,829)	(263,829)	0	0	0
Total Pharmacy	\$ 4,551,747	\$ 3,633,014	\$ (918,733)	\$ 18,129,933	\$ 17,211,200
614-BEHAVIORAL HEALTH	427,830	431,727	3,897	5,281,514	5,285,411
629-SI DENTAL PPO	1,138,119	1,129,683	(8,436)	5,628,959	5,620,523
623-VISION	446,062	432,570	(13,492)	420,480	406,988
615-WELLNESS	219,047	354,756	135,709	4,178,042	4,313,751
618-BENEFIT ADMINISTRATION	609,060	799,753	190,693	6,494,293	6,684,986
999-BENEFITS CLEARING	0	(0)	(0)		(0)
Total Other	\$ 2,840,118	\$ 3,148,488	\$ 308,371	\$ 22,003,288	\$ 22,311,659
Grand Total	\$ 35,023,271	\$ 34,084,274	\$ (938,997)	\$ 36,557,325	\$ 35,618,328

Employee Self Insured Funds

611-60 PERCENT STD	639,353	493,973	(145,380)	(432,963)	(578,343)
612-50 PERCENT STD	55,946	112,564	56,618	1,226,932	1,283,550
613-40 PERCENT STD	22,050	45,783	23,733	791,150	814,883
Total STD	\$ 717,349	\$ 652,321	\$ (65,028)	\$ 1,585,119	\$ 1,520,091
Total Self-Insured	\$ 35,740,620	\$ 34,736,594	\$ (1,004,025)	\$ 38,142,444	\$ 37,138,419

Fully Insured (Agency) Funds

<u>Fund</u>	<u>Expenditures</u>	<u>Revenues</u>	<u>Net</u>	<u>Fund Balance</u> <u>7/1/2014</u>	<u>Fund Balance</u> <u>9/30/2014</u>
607-FI DENTAL PPO	\$ 1,216,482	\$ 1,321,853	\$ 105,371	\$ 76,633	\$ 182,004
625-FI PREPAID DENTAL	54,783	54,763	(20)	109,976	109,956
Total Dental	\$ 1,271,265	\$ 1,376,616	\$ 105,351	\$ 186,609	\$ 291,960
621-FLEX SPENDING HEALTH	796,981	551,214	(245,766)	0	(245,766)
622-FLEX SPENDING DEP CARE	91,338	214,326	122,988	732	123,720
Total FSA	\$ 888,319	\$ 765,540	\$ (122,779)	\$ 732	\$ (122,047)
626-FI LIFE AND AD AND D	103,587	104,190	603	41,731	42,334
627-SUPPLEMENTAL LIFE	920,308	966,464	46,156	235,984	282,140
630-DEPENDENT LIFE	92,694	96,633	3,939	8,037	11,976
Total Life and AD&D	\$ 1,116,589	\$ 1,167,288	\$ 50,698	\$ 285,752	\$ 336,450
628-EMPLOYEE ASSISTANCE	101,443	101,382	(61)	2,398	2,337
631-VOLUNTARY BENEFITS	158,640	171,098	12,458	1,511	13,969
632-Senior Select	0	0	0	40,500	40,500
Total Others	\$ 260,082	\$ 272,480	\$ 12,398	\$ 44,409	\$ 56,807
Total Agency Funds	\$ 3,536,255	\$ 3,581,923	\$ 45,668	\$ 517,502	\$ 563,170

Balance Sheet Details
September 30, 2014, June 30, 2014, June 30, 2013, and June 30, 2012

10/17/2014

	9/30/2014	6/30/2014	6/30/2013	6/30/2012
<u>Accounts receivable</u>				
COBRA Receivable	\$ 29,474	\$ 5,977,019	\$ 61,592	\$ 164,058
Cigna HMO	0	0	1,057	1,154
Dental			1,154	1,057
Wellness		238,540		
Catamaran Rebate	480,044	486,988	506,600	757,936
Total Accounts receivable	\$ 509,518	\$ 6,702,547	\$ 570,403	\$ 924,205
<u>Prepaid insurance</u>				
STD	\$ 131,947	\$ 131,947	\$ 87,530	\$ 94,567
Vision	0	0	0	4,989
Dental	75,849	99,851	17,190	
Medical	3,062,176	2,516,912	2,502,262	1,311,547
Total prepaid insurance	\$ 3,269,972	\$ 2,748,710	\$ 2,606,982	\$ 1,411,103
<u>Accounts Payable</u>				
Medical	\$ -	\$ 26,649	\$ -	\$ -
Behavioral Health	0	0	65,355	38,030
Vision	50,232	67,670	280,230	
Pharmacy	0	751,753		
STD	0	19,266	13,978	11,929
614-BEHAVIORAL HEALTH			0	5,754
618-Benefits Administration	0	106,849	0	23,474
615-WELLNESS	56,266	55,576	18,399	9,218
#REF!	0	119,395	105,707	
619-ONSITE PHARMACY CLINIC			102,894	
Total accounts payable	\$ 106,498	\$ 1,147,158	\$ 586,563	\$ 88,405
<u>Accrued Liabilities</u>				
Medical	\$ 3,159,085	\$ 3,760,742	\$ 1,664,741	\$ 2,846,956
Pharmacy			524,517	625,425
Behavioral Health	0	0	355	
Vision	0	0	(132,683)	0
Dental	141,484	141,484	157,837	139,519
STD	17,499	0	6,178,953	
Accrued Employee Rebate				
618-BENEFITS ADMINISTRATION	89,250	0		
619-ONSITE PHARMACY CLINIC	128,000	0		
999-BENEFITS CLEARING	0	587,921	1,223,942	1,942,466
HEALTH SELECT SI TRUST				
Total Accrued Liabilities	\$ 3,535,318	\$ 4,490,147	\$ 9,617,662	\$ 5,554,366
<u>Employee compensation payable</u>				
Consumer Choice Pharmacy Employee Allowance	\$ -		\$ 6,609	\$ 3,122,217
618-Employee compensation payable	104,994	117,960	128,422	145,869
615-Employee compensation payable	35,370	41,485		
Total Employee Comp Accrual	\$ 140,364	\$ 159,445	\$ 135,031	\$ 3,268,086
<u>Reserve for losses and loss expenses -IBNR Details</u>				
Medical- HMO	\$ 3,402,145	\$ 3,507,145	\$ 2,832,087	\$ 5,226,188
Medical - PPO	3,604,380	4,227,380	2,583,203	3,738,425
Medical - HDHP	2,074,096	2,500,096	1,580,489	823,806
Behavioral Health	226,157	226,157	293,592	231,766
Vision	143,530	143,530	161,597	107,576
Dental	553,998	553,998	466,041	484,345
STD	528,990	528,990	369,937	323,861
Total Reserve for losses and loss expenses	\$ 10,533,296	\$ 11,687,296	\$ 8,286,946	\$ 10,935,967

MARICOPA COUNTY
EMPLOYEE BENEFITS TRUST FUNDS
 Three Months Ended September 30, 2014

Self Insured Funds

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Variance %</u>
Revenue				
601-MEDICAL HMO	\$ 12,559,038	\$ 12,315,248	\$ (243,790)	-1.94%
604-MEDICAL PPO	9,783,651	9,103,317	(680,334)	-6.95%
606-MEDICAL HDHP W HSA	5,254,452	5,884,207	629,755	11.99%
614-BEHAVIORAL HEALTH	449,349	431,727	(17,622)	-3.92%
Total Medical & BH	\$ 28,046,490	\$ 27,734,498	(311,992)	-1.11%
629-SI DENTAL PPO	1,059,633	1,129,683	70,050	6.61%
Total Dental	\$ 1,059,633	\$ 1,129,683	70,050	6.61%
608-COINSURANCE PHARMACY	3,674,391	3,530,314	(144,077)	-3.92%
619-ONSITE PHARMACY CLINIC	424,000	366,528	(57,472)	-13.55%
620- BENEFITS ELIMINATIONS	(289,497)	(263,829)	25,668	-8.87%
Total Pharmacy	\$ 3,808,894	\$ 3,633,014	(201,549)	-5.29%
623-VISION	426,567	432,570	6,003	1.41%
Total Vision	\$ 426,567	\$ 432,570	6,003	1.41%
615-WELLNESS	351,591	354,756	3,165	0.90%
618-BENEFIT ADMINISTRATION	767,695	799,753	32,058	4.18%
Total Other	\$ 1,119,286	\$ 1,154,509	35,223	3.15%
Grand Total	\$ 34,460,870	\$ 34,084,274	\$ (376,596)	-1.09%

Employee Self Insured Funds

611-60 PERCENT STD	\$ 486,144	\$ 493,973	\$ 7,829	1.61%
612-50 PERCENT STD	102,117	112,564	10,447	10.23%
613-40 PERCENT STD	40,314	45,783	5,469	13.57%
Total STD	\$ 628,575	\$ 652,321	23,746	3.78%
Total Revenue	\$ 35,089,445	\$ 34,736,594	(352,851)	-1.01%

Expenses

601-MEDICAL HMO	\$ 12,802,584	\$ 11,795,613	\$ 1,006,971	7.87%
604-MEDICAL PPO	9,976,777	9,563,226	413,551	4.15%
606-MEDICAL HDHP W HSA	5,422,970	6,272,568	(849,598)	-15.67%
614-BEHAVIORAL HEALTH	444,174	427,830	16,344	3.68%
Total Medical & BH	\$ 28,646,505	\$ 28,059,236	\$ 587,269	2.05%
629-SI DENTAL PPO	1,202,483	1,138,119	64,364	5.35%
Total Dental	\$ 1,202,483	\$ 1,138,119	64,364	5.35%
608-COINSURANCE PHARMACY	3,810,230	4,332,117	(521,887)	-13.70%
619-ONSITE PHARMACY CLINIC	423,000	483,458	(60,458)	-14.29%
620- BENEFITS ELIMINATIONS	(289,497)	(263,829)	(25,668)	8.87%
Total Pharmacy	\$ 3,943,733	\$ 4,551,747	(608,014)	-15.42%
623-VISION	556,803	446,062	110,741	19.89%
Total Vision	\$ 556,803	\$ 446,062	110,741	19.89%
615-WELLNESS	228,622	219,047	9,575	
618-BENEFIT ADMINISTRATION	687,690	609,060	78,630	11.43%
Total Other	\$ 916,312	\$ 828,107	\$ 88,205	9.63%
Grand Total	\$ 35,265,836	\$ 35,023,271	\$ 242,565	0.69%

Employee Self Insured Funds

611-60 PERCENT STD	\$ 591,214	\$ 639,353	\$ (48,139)	-8.14%
612-50 PERCENT STD	99,392	55,946	43,446	43.71%
613-40 PERCENT STD	36,373	22,050	14,323	39.38%
Total STD	\$ 726,979	\$ 717,349	\$ 9,630	1.32%
Total Self-Insured	\$ 35,992,815	\$ 35,740,620	\$ 252,195	0.70%

MARICOPA COUNTY
EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
September 2014

NOTE 1 – Interest Receivable Held with the Treasurer

Interest Receivable represents the Trust's share of the amortization of zero coupon bond discounts and the unpaid but earned portion of bond coupons which are normally paid every six months on varying dates. The trust has all cash invested with the Maricopa County Treasurer in the investment pool. This pool consists of U S Government Securities that have up to a three year maturity.

NOTE 2 – Accounts Receivable

Accounts Receivable includes \$29,474 for COBRA premium and \$480,044 for RxRebates.

NOTE 3 – Pre-Paid Insurance

Pre-Paid insurance include \$131,947 for Sedgwick, \$75,849 for Dental, and \$3,062,176 for Medical. The balance of Cigna Catalyst Bank Account was \$1,153,432.10 as of September 30, 2014, these funds are going to pay Cigna for Medical and Dental Claims.

NOTE 4 – Capital Equipment

This is for the Ergonomics AstroVan purchased in 2000. All equipment has been fully depreciated as of June 30, 2012.

NOTE 5 – Accounts Payable

Accounts Payable was \$106,498.

NOTE 6 – Accrued Liabilities

Accrued Liabilities fluctuates monthly mainly due to the amount of outstanding checks that have not been cashed by providers. That includes \$3,159,085 for Medical, \$141,484 for Dental, \$17,499 for STD, \$89,250 for Benefit Administration (OptumHealth), \$128,000 for Onsite Pharmacy Clinic. This includes Claims payments issued by Cigna out of their bank account that have not cleared the bank.

NOTE 7 – Employee Compensation Payable

\$140,364 is accrued salaries as of month end, plus employee vacations earnings payable.

NOTE 8 – Reserve for losses and loss expenses

The funds establish claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. As of 9/30/14, the Reserve for losses and loss expenses is \$10,533,296 that included \$9,080,621 for Medical, \$226,157 for Behavioral health, \$145,530 for Vision, \$553,998 for Dental, and \$528,990 for STD. The Incurred but Not Reported (IBNR) Liability included in this Account for Cigna is based on Claims payments issued by Cigna. As a result the claims payments issued by Cigna but not cleared the bank are accrued in the Accrued Liability Account.